Tax Supported
New Issue

Cambridge, Massachusetts

Ratings

New Issue

General Obligation Bonds, Municipal Purpose Loan of 2007, Series A .... AAA

Outstanding Debt

General Obligation Bonds .... AAA

Rating Outlook .... Stable

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New Issue Details

Approximately $32,175,000 General Obligation (GO) Bonds, Municipal Purpose Loan of 2007, Series A, are scheduled to sell competitively on Feb. 8. The bonds will mature Feb. 1, 2008–2027.

Security: The bonds are GOs of the city of Cambridge, payable from taxes levied on all taxable property, subject to statutory levy limitations.

Purpose: Bond proceeds will be used to fund various general government capital projects.

■ Outlook

The superior 'AAA' rating is based on the city of Cambridge's diversified economy with a sizable and stable employment base, exceptional financial management and planning, low debt levels, and manageable capital needs. The city's economy is anchored by the presence of Massachusetts Institute of Technology (MIT) and Harvard University (Harvard), which are two of the city's largest employers and taxpayers. The presence of higher education employers has attracted substantial private research and development interests; biotechnology and pharmaceutical companies represent four of the 10 largest employers. The Rating Outlook is Stable.

■ Rating Considerations

Cambridge's well-diversified economy is characterized by favorable labor market conditions that continue to outperform those of Middlesex County, Massachusetts, and the nation. The November 2006 unemployment rate of 3.4% compared favorably with the 4.6% and 4.3% posted by the state and nation, respectively. There have been slight declines in population based on estimates since the 2000 U.S. Census, and labor force numbers have shown declines as well; however, between November 2005 and November 2006, this trend showed signs of reversing, with the labor force increasing by 0.8%. Income levels are high, as per capita personal income in 2005 equaled 134% and 192% of the state and national levels, respectively, which is particularly notable given the area's large student population related to the presence of Harvard and MIT.

Exceptional financial management and planning are demonstrated by the city's strong financial position, characterized by ample reserve and liquidity levels. Audited results for fiscal 2006 show an unreserved, undesignated general fund balance of $120.2 million, totaling 33.6% of expenditures and transfers out, up from 30.3% at the close of fiscal 2005. The fiscal 2007 budget represents a 4% increase in spending over fiscal 2006 budgeted levels and includes the use of about $10 million of reserves as a revenue source. The city typically budgets some use of reserves but has posted an operating surplus each year since fiscal 2000, the result of conservative budgeting practices. Growth in the tax base has been steady at 4.5% on average annually between fiscal years 2003 and 2007. This growth in real estate values, as well as prudent financial management, has allowed Cambridge to stay well within the state-imposed property tax levy limitation, Proposition 2½. The excess levy capacity for the fiscal 2007 budget is a substantial $74 million, the highest level recorded in the commonwealth.

At $1,804 per capita and 0.81% of market value, Cambridge's direct debt burden is low and should remain so given its manageable capital needs. The city's five-year capital improvement plan (CIP) for fiscal years 2007–2011 totals an affordable $155 million. The bulk of planned spending is related to water and sewer system improvements, with a smaller amount dedicated to general government projects. About 36% of the plan will be debt funded, with the balance funded through grants, utility system user charges, and property tax revenues. Debt is amortized rapidly, with 51% and 81% of principal retiring within five and 10 years, respectively.

Strengths

- Well-diversified economy anchored by the stable presence of higher education, health care, biotechnology, and life sciences industries.
- Exceptional financial management reflected in consistently strong fiscal performance.
- Low debt burden and manageable capital needs.

Risk

- Vulnerability to the state-mandated Proposition 2½ tax levy limitations, but excess levy capacity remains the highest in the commonwealth.

Debt

Direct debt is a low $1,804 per capita and 0.81% of market value. Although the city is responsible for a portion of the Massachusetts Water Resources Authority's (MWRA) outstanding debt, the figure is not included in the overall debt calculations because the debt is self-supporting by user charges. Debt levels include $18 million in outstanding general obligation (GO) bonds issued by the city for health and hospital facilities. Although the Cambridge Public Health Commission (CPHC) pays debt service on GO debt issued for hospitals, the city ultimately remains legally obligated to pay debt service to bondholders. Moreover, as the city continues to provide property tax support to the CPHC, the bonds are not considered self-supporting. However, self-support credit is given to principal retired through sewer and water fees and state school construction grants. The current issuance will fund projects in the fiscal years 2007–2011 CIP, including acquisition and renovation of a building to be used for a police headquarters, renovation of a youth center, street reconstruction, sewer reconstruction, and open space improvements.

The city's currently low debt levels should remain so given its manageable capital needs and prudent debt management. Cambridge's fiscal years 2007–2011 CIP totals an affordable $155 million and includes funding for water and sewer improvements (71%), streets and highways (11.7%), public safety (5.8%), human resources (2.4%), general government (1.9%), and other purposes (6.8%). Although the city is responsible for funding a portion of the capital needs of the city's school district (the remaining funding is provided through the Massachusetts School Building Authority), these demands are minimal, as a declining enrollment trend is expected to continue.

Debt Statistics

($000)

This Issue	32,175
Outstanding General Obligation Bonds	255,890
MWPAT and MWRA Loans	26,312
Total Outstanding Debt	314,377
Water and Sewer General Obligation Bonds	99,419
MWPAT and MWRA Loans	17,903
Commonwealth Subsidy: Schools and MWPAT Loans	15,456
Other Self-Supporting Debt	970
Total Self-Supporting Debt	133,748
Total Direct Debt	180,629
Debt Ratios	
Direct Debt Per Capita ($)*	1,804
As % of Market Value**	0.81

*Population: 100,135 (2005 estimate).
**Market value: $22,167,135,000 (fiscal 2007).
MWPAT – Massachusetts Water Pollution Abatement Trust.
MWRA – Massachusetts Water Resources Authority.

Bond proceeds will fund approximately 36% of the total CIP, with grants (44%), user fees and charges (6.9%), and free cash and property tax revenue (12.9%) financing the remainder. The bulk of grant revenue is received from MWRA to offset the cost of water and sewer capital projects. The city amortizes its debt rapidly, with 51% and 81% of principal retiring within five and 10 years, respectively.

The city contributes to the Cambridge Retirement System, a cost-sharing, multiemployer public employee retirement system that provides benefits to plan members and beneficiaries to the city as well as three other governmental units. The system is well funded; the actuarial value of assets represented 85.3% of the actuarial accrued liability as of Jan. 1, 2006, the most recent date for which data are available. The funded ratio declined slightly since the previous valuation, at Jan. 1, 2004, when the funded ratio was 86.9%. The unfunded actuarial accrued liability (UAAL) increased to $108.0 million from $85.6 million over the two-year period. The decline in the funded ratio is attributed to poor investment returns, below the 8.5% rate of return assumed for plan assets. The city plans to make contributions in excess of the actuarially required contribution each year through fiscal 2015, with the goal of eliminating the UAAL by that time.

The city is required to implement Governmental Accounting Standards Board Statement No. 45, related to the reporting of its liability for other post-employment benefits (OPEB), during fiscal 2008. The city is conducting an actuarial review of its liability and has appointed a steering committee to examine funding options. In fiscal 2006, the city expended $14.4 million for OPEB, and the unfunded liability is expected to be manageable relative to the size of the city's budget, in the range of $225 million–$300 million.

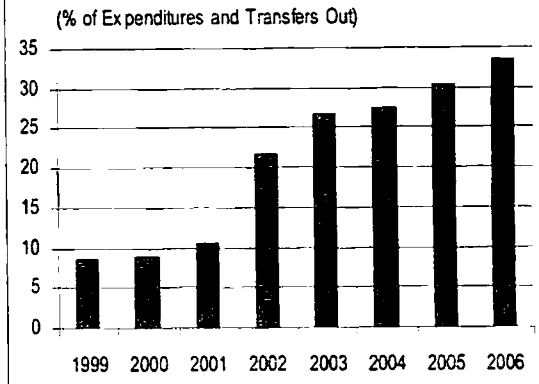
■ Finances

Cambridge's financial performance has been consistently strong, characterized by ample reserves and liquidity levels as well as significant taxing capacity under Proposition 2½. Audited results for fiscal 2006 reflect an unreserved, undesignated general fund balance of 33.6% of spending and transfers out, up from 30.3% and 27.6% for fiscal years 2005 and 2004, respectively. The city's liquidity position remains considerable; certified free cash was a substantial $68 million at the close of fiscal 2006, and the free cash level has increased each year since at least fiscal 2002, when it equaled $27.8 million.

The fiscal 2007 budget represents a 4% increase in spending over fiscal 2006 budgeted levels. Growth in spending is attributable to increases in debt service, salaries, health care, and retirement costs. Growth in the budget will be funded mainly through an increase in the property tax levy of 4% over the fiscal 2006 level. In accordance with past budgetary practices, about $10 million of reserves has been budgeted as a revenue source in fiscal 2007. The city typically budgets the use of reserves but finishes the fiscal year with an addition to the fund balance, the result of conservative budgeting practices. Year-to-date results indicate all major revenue categories are overbudget, while expenditure categories are near budgeted levels.

Property tax receipts are the city's main revenue source and provide budget stability. In fiscal 2006, property taxes accounted for 60.2% of general fund operating revenues and transfers in. The city has demonstrated a strong willingness to raise the property tax levy to offset growth in recurring expenditures. Between fiscal years 1997 and 2007, the tax levy was increased in all years except fiscal 2006. However, due to strong growth in assessed valuation (AV) over the past decade, the tax rate has declined despite the increases in the levy. The residential tax rate of $7.48 per $1,000 of AV in fiscal 2007 declined from $13.02 in fiscal 1997, while the commercial rate dropped to $18.30 from $35.78.

Fiscal Trends: Unreserved, Undesignated General Fund Balance
(GAAP Basis, Audited Fiscal Years Ended June 30)



GAAP – Generally accepted accounting principles.

Residential properties represent 63.7% of the city's tax base in fiscal 2007, commercial 22.2%, and industrial and personal property the remainder. Despite the bulk of the tax base being made up of residential property, the tax burden is about evenly split between residential and commercial payors, with 36.6% and 38.9% of the fiscal 2007 tax levy paid by the residential and commercial components, respectively. City residents benefit from a residential property tax exemption that allows a 30% exemption on AV of less than $500,000 on all owner-occupied primary residences.

A full revaluation of property is conducted every three years. Since the beginning of the decade, the city has conducted a statistical revaluation in the interim years so that the triennial full revaluation does not produce a large jump in the tax base. The next full revaluation is scheduled for fiscal 2008. Over the past five fiscal years, average annual growth in the tax base on a compounded basis equaled 4.5%.

In fiscal years 2006 and 2007, slower rates of growth, 2.3% and 1.5%, respectively, were experienced. The city's five-year financial forecast projects average tax base growth of 3.4% annually through fiscal 2011. Building permit numbers continue to be robust and are well above budgeted levels halfway through fiscal 2007, which bodes well for future growth of the tax base.

Impressive growth related to new construction in the residential and commercial tax base has resulted in substantial excess levy capacity under Proposition 2½. The city's excess property tax levy capacity for fiscal 2007 equals $73.7 million, the highest level for any municipality in the commonwealth. The excess levy capacity has grown each year since fiscal 1995, when it equaled a slim $498,000. The five-year financial plan projects tax base growth and levy increases that will result in excess capacity hovering at about $70 million through fiscal 2011.

Some tax base concentration exists, with the 10 largest taxpayers making up 18.4% of AV and 29% of the tax levy in fiscal 2007. Concern regarding the concentration is mitigated by the fact that the largest taxpayers include stable entities with a significant amount of investment in the city. MIT and Harvard have significant taxable property holdings in the city and are the first and fourth largest taxpayers, respectively. The remainder of the top 10 includes three biotechnology companies and is rounded out by other large commercial properties and real estate development companies.

The city has payment-in-lieu-of-taxes (PILOT) agreements with MIT and Harvard. PILOT agreements are made by the entities in addition to the property taxes paid on taxable real estate. Both PILOT agreements were renewed in 2005. The agreement with MIT has a 40-year term; the base payment of $1.5 million will increase by 2.5% annually. The agreement with Harvard has a 50-year term; the base payment of $2 million will increase by 3% annually. In addition, both institutions have entered into agreements that will mitigate the financial impact on the city should any taxable land holdings be converted to tax-exempt status.

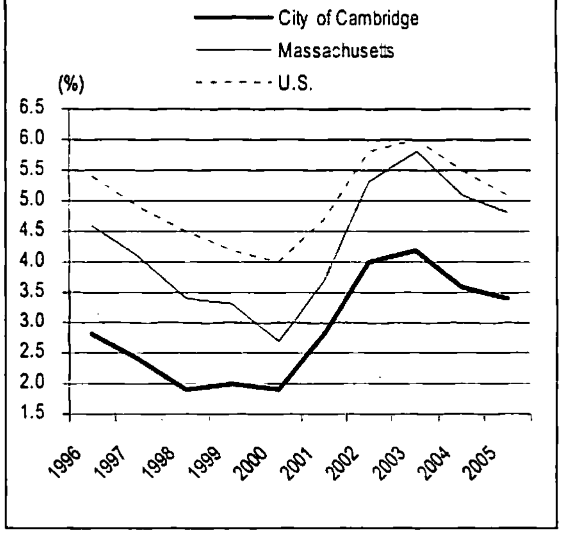
■ Economy

Cambridge is located in Middlesex County across the Charles River from the city of Boston (GO bonds rated 'AA' with a Stable Rating Outlook by Fitch Ratings). Cambridge is an important economic component of the Boston metropolitan area and Massachusetts as a whole. The city maintains its reputation as a leading center for higher education, technology, research and development — especially in biotechnology and life sciences — and health care institutions. The population for 2005 was estimated at 100,135, which represents a loss of 1.2% compared with the 2000 U.S. Census, a trend not inconsistent with regional statistics. In contrast, the population of Boston posted a 5.1% decline over the same period.

The biotechnology and life sciences industries continue to flourish, occupying a large portion of commercial space. The presence of several prominent research institutions and a well-educated work force help make the city an ideal location for high-end research. Four of the city's largest employers are biotechnology and pharmaceutical companies. Other large employers include MIT, Harvard, health care institutions, and the federal government.

The prospects for future commercial and residential development are bright. Currently, major mixed-use development is occurring at the North Point site, with private investment transforming the area around an old rail yard. The site will include a five-acre park along the Charles River to open in spring 2007. In addition, approximately 425 residential units are anticipated to be completed during 2007. As development continues, North Point will reportedly become home to the largest mixed-use development project in Cambridge's history.

Annual Unemployment Rates
(Years Ended Dec. 31)



The commercial market is strong, as indicated by sharp declines in office vacancy rates. For third-quarter 2006, the city reported vacancy rates of 8.3%, down from the 14.3% recorded for the third quarter of 2005 and much lower than the surrounding suburbs' rate of 17%. For the first time in recent history, the vacancy rate declined to near the level posted in the Boston office market.

Despite declines in the labor force since the beginning of the decade, Cambridge's local labor market conditions — long a strength on its credit *profile* — continue to outperform those of the county, state, and nation. The city's unemployment rate for 2005 equaled 3.4%, well below those of the state (4.8%) and the nation (5.1%). The trend of decline in the labor force has shown signs of reversal, posting 0.81% growth between November 2005 and November 2006.

Cambridge's wealth indicators are strong. By all measures, income levels are above state and national averages. Per capita money income in 2005 was 134% of state and 192% of national averages. Furthermore, the market value per capita recorded for fiscal 2007 is very high at $221,372, particularly significant given the tax-exempt portion of the city's property base, which equals about 25% of all property in the city.

New Issue: Cambridge (City of) MA

MOODY'S ASSIGNS Aaa RATING TO CITY OF CAMBRIDGE'S (MA) $32 MILLION GENERAL OBLIGATION BONDS

AFFIRMATION AFFECTS $256 MILLION OF PREVIOUSLY RATED PARITY DEBT

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Municipal Purpose Loan of 2007, Series A	Aaa

Sale Amount	$32,175,000
Expected Sale Date	02/01/07
Rating Description	General Obligation Limited Tax

Opinion

NEW YORK, Jan 25, 2007 -- Moody's Investors Service has assigned a Aaa rating to the City of Cambridge's $32 million General Obligation Bonds, Municipal Purpose Loan of 2007, Series A. At this time, Moody's has also affirmed the Aaa rating assigned to the city's $256 million in outstanding long-term general obligation debt. The bonds are secured by the city's general obligation, limited tax pledge as debt service has not been exempted from the levy limitations of Proposition 2 ½. The bonds are issued to finance renovation of the city's new police headquarters building, acquisition and renovations to a building for the West Cambridge Youth and Community Center, as well as sewer reconstruction, road construction and other capital projects. Moody's assignment of its highest quality long-term rating incorporates: an exceptionally strong financial position supported by the city's seasoned and highly effective management team, a large and diverse tax base with a significant tax-exempt sector and a favorable debt profile supported by healthy enterprise systems and significant commonwealth school building aid.

ROBUST RESERVE LEVELS HIGHLIGHT CONSISTENTLY STRONG FINANCIAL POSITION

Cambridge continues to maintain a robust financial position given a prudent fiscal strategy and policies implemented by a strong management team, steady revenue streams generated by its substantial and economically vibrant tax base, and a notable degree of flexibility to address future budgetary challenges. The city remains dependent on local property taxes, which represented 60% of fiscal 2006 general fund revenues, and to a lesser extent on commonwealth aid, representing roughly 12% of fiscal 2006 revenues. Operations in fiscal 2006 yielded a surplus of over $12 million, significantly lower than the $24 million surplus from fiscal 2005 but roughly equivalent to the five-year average of $11.5 million. Conservative revenue budgeting assumptions have yielded comfortable revenue surpluses of $11.3 million in fiscal 2006, while tight management of expenditures has generated modest unspent appropriations of $4.5 million. General fund balance increased to a healthy $136 million (32.5% of general fund revenues) while the most conservative measure of legally available reserves, Cambridge's "free cash" certified by the commonwealth, totaled a sound $68 million (18.4% of revenues), a significant improvement from the $25 million free cash (8.3% of revenues) in fiscal 2001.

The adopted fiscal 2007 budget contains a moderate 3.9% increase over the adjusted fiscal 2006 budget, due to significant expenditure increases in several areas including personnel-related expenditures, energy, debt service and regional wastewater assessments. The city's budget was balanced by a nearly 4% property tax levy increase as well as a total appropriation of $10 million free cash and stabilization reserves. Despite budgeted draws on reserves, management projects that the city will produce another operating surplus, with positive variances in revenues and expenditures expected, allowing it to maintain reserve and levy capacity levels approximating those in fiscal 2006. Notably, the city's pension system continues to exert funding pressure as the unfunded pension liability has increased to over $108 million as reported in the January 1, 2006 actuarial study. As seen in many retirement systems nationwide, funding status fell to approximately 85% of actuarial liability from a peak of 89% reported in the January 2002 study. Although early retirement incentives added to the total liability the decrease was primarily due to several years of investment returns below the historical actuarial assumption of 9%. The current funding schedule is aggressive with full funding achieved in 2015, 13 years ahead of the commonwealth's imposed due date of 2028. Cambridge has adopted a less aggressive investment return assumption of 8.5%and has budgeted a catch-up payment of

$1.9 million in fiscal 2007 to remain on track for full funding by 2015, well ahead of most Massachusetts communities. The city has begun an actuarial study to value its Other Post Employment Benefit (OPEB) liability in order to comply with GASB 45 reporting deadlines. Although the liability has not yet been quantified management has identified several potential funding sources including reductions in free cash and the health claim trust fund, and diversions of the current revenue streams allocated to pensions, when this liability is retired, and health insurance as employee contributions are adjusted upward. Despite these pressures, Moody's expects that the city's solid historical financial performance, demonstrated ability to implement prudent fiscal policies and conservative approach to forecasting will sustain Cambridge's extremely favorable financial position.

Key to Cambridge's financial position are strong reserve levels maintained in its Stabilization, Parking and Health Claims Trust Funds, totaling $41.1 million in fiscal 2006. Further, in 2001 voters passed the Community Preservation Act (CPA), imposing a 3% surtax and qualifying the city to receive state matching funds; in all $59.6 million have been appropriated or reserved since adoption. CPA funds are available to fund affordable housing, historic preservation and open space conservation and notably have enabled the development or preservation of over 2750 units of housing in the city. The city received nearly 2% ($6.6 million) of revenues from Payments-In-Lieu of Taxes (PILOTs), with the majority coming from Harvard University (rated Aaa/stable outlook) and the Massachusetts Institute of Technology (MIT, also rated Aaa/stable outlook). Both institutions own significant taxable real estate and are major taxpayers, which together represent 7.6% of Cambridge's 2007 assessed value and nearly 11% of the levy. The city has recently signed a 40-year, $101 million agreement with MIT which increased the fiscal 2005 annual PILOT by 20%; the PILOT with Harvard was renewed for 50 years and included a one-time $1 million payment in fiscal 2005. Each PILOT includes annual escalators on the initial base payment over the term of the agreement to provide stability and to allow long-range planning for the city.

Additional flexibility is derived from Cambridge's ample excess property tax levy capacity under Proposition 2 ½, historically maintained at robust levels and currently the highest of any Massachusetts city or town. The city's excess levy capacity reached $73.7 million in fiscal 2007 and has grown by 104% since fiscal 2003 due to strong tax base growth and controlled expenditure growth. Levy capacity is projected to stabilize at current levels in the medium term allowing the city significant flexibility to accommodate unanticipated demands in future budget cycles. The city's conservative medium-range projections also show a planned use of up to $5.5 million annually from the Stabilization Fund from fiscal 2007 through fiscal 2011, which could nearly deplete the $15.5 million fund, but Moody's believes the city's substantial additional reserves will continue to provide sufficient flexibility for contingencies. Overall, Moody's expects that Cambridge will retain ample capacity to accommodate expenditure increases.

STEADILY GROWING TAX BASE INCLUDES HIGHER EDUCATION AND BIOTECHNOLOGY INSTITUTIONS

Cambridge's equalized value of $24 billion is expected to experience sustained growth, reflecting ongoing development throughout the city and moderate market value appreciation, primarily in the residential sector. Fiscal 2007 assessed values grew a modest 1.5% due to flat commercial valuations and moderate residential and industrial expansion. City officials project annual growth averaging approximately 3.3% through fiscal 2011, which is conservative compared to the city's five-year average annual assessed value growth of 9.7%, and anticipates nominal market appreciation of the existing base as well as modest new development across all sectors. Since 2001, the city has added over 4.5 million square feet of commercial space and city officials report that over 5.7 million additional square feet of research and development space, slated for housing and biotechnology research and development, is in various stages of permitting and construction in the city's targeted economic development districts. Despite the steady increase in available commercial space, city officials report a very sharp drop in office vacancy rates to 8.3% in the third quarter of 2006, falling from 14.3% for the same period in 2005 and substantially reduced from the peak 22% in 2003. Cambridge's vacancy rates are now roughly equivalent to Boston's third quarter 2006 rate of 8.2% and compare very favorably to the regional suburban vacancy rate of 17.1%. Residential growth is also projected to experience moderate growth due to ongoing rehabilitation of the existing housing stock and new developments, notably the residential components of the Guilford/North Point and Cambridge Research Park developments, which together with several other projects under construction are projected to add over 1,000 rental and condominium housing units in the near term. Moody's believes that the city's near-term growth projections may be conservative as building permit values in fiscal 2006 increased by 72% to nearly $964 million, while noting that the permits issued to Harvard and MIT represent roughly half of the total, remaining in line with historical levels.

Cambridge's economy benefits from the presence of Harvard University and MIT - which together enroll 28,400 students and provide employment for nearly 18,000 full-time equivalent positions - and the related vibrant biotechnology employment base. Together these institutions comprise 36% of the jobs provided by the city's top 25 employers. Income and wealth levels are strong; despite the high student population and tax exemption of nearly one-third of the tax base, the city still maintains a solid equalized value per capita of $242,316 and Per Capita Income of $31,156 or 120% of the commonwealth median.

USER FEES AND COMMONWEALTH SUPPORT CONTRIBUTE TO FAVORABLE DEBT PROFILE

Moody's expects the city's below average debt burden to remain affordable given steady anticipated tax base expansion, a sizeable level of self-supporting debt, and a rapid principal retirement schedule. The city's low direct debt burden of 0.8% of equalized value rises to a moderate 1.5% after including overlapping debt from the Massachusetts Water Resources Authority (MWRA senior lien debt rated Aa2/stable outlook). Adjusted debt burden remains low at 1.5%, and incorporates the self-supporting nature of the city's sewer system and water enterprise debt. Commonwealth aid for school construction costs as well as the city's pay-as-you-go funding plan, budgeted at approximately $2 million annually, also contribute to Cambridge's favorable debt ratios. Net direct debt is retired at an above-average pace of 83.2% in 10 years. Despite the rapid amortization schedule, General Fund-supported debt service claimed a moderate 7.9% of fiscal 2006 expenditures. Management plans to issue approximately $161 million in debt over the next four years; however, with approximately 40% of the debt expected to be supported by user fees and the current aggressive amortization schedule Moody's expects Cambridge's debt profile to remain favorable.

KEY STATISTICS

2005 Estimated Population: 100,135

2000 Per Capita Income: $31,156 (120.1% of state median)

2007 Equalized Value (proposed): $24.2 billion

2007 Equalized Value per Capita: $242,316

Equalized Value Average Annual Growth 2001-2007: 11.4%

Adjusted Debt Burden: 1.5%

Amortization of principal (10 years): 83.2%

FY06 General Fund Balance: $136 million (36.9% of General Fund revenues)

FY06 Undesignated General Fund Balance: $120 million (32.5% of General Fund revenues)

FY06 Stabilization Fund balance: $7.5 million ($2.0% of General Fund revenues)

Post-sale long-term debt outstanding: $288 million

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STANDARD & POOR'S

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Credit Profile		
US$32.175 mil GO bnds ser 2007 A dtd 02/15/2007 due 02/01/2027		
Long Term Rating	AAA/Stable	New
Cambridge GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Cambridge, Mass.' series 2007A GO bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's preexisting GO debt.

The rating reflects the city's:

- Continued strong financial position;
- Dynamic local economy, which is centered on its two major universities and the biotechnology industry, and continued citywide economic redevelopment;
- High wealth and income factors, including a high market value per capita;
- Strong and experienced management team that uses detailed modeling to forecast revenue and capital trends; and
- Low debt burden and favorable capital plan.

RatingsDirect
Publication Date
Jan. 24, 2007

The city's full faith and credit pledge secures the bonds. Officials will use bond proceeds to fund various municipal purposes, including a new police station, a youth center, sewer projects, and regular road repair and maintenance.

Cambridge, with a stable population of 101,355, is across the Charles River from Boston, Mass ('AA/Stable GO debt rating). Anchored by the intellectual capital of Harvard University and Massachusetts Institute of Technology (MIT), the local economy is strong and concentrated in high-tech, biotechnology, engineering, medicine, education, and consulting. Much of the city's job base is indirectly tied to university or industry spun off from university research or intellectual capital. The employment base's ties to higher education are a stabilizing factor because employment opportunities in Cambridge have been robust, resulting in a 20-year history of below-average unemployment rates. The city's unemployment rate was 3.4% in 2005, well below the commonwealth's 4.8% rate and the nation's 5.2 rate. Through September 2006, the city's unemployment rate was a low 3.7%. Cambridge has experienced strong economic activity, driven, in large part, by growing pharmaceutical and biotechnology industries. Of the city's 25 leading employers, seven are biotechnology companies; their employment accounts for about 18% of the leading employers' total employment.

Fiscal 2007assessed valuation (AV) reached $22 billion, a 25% increase over fiscal 2003 AV. Market value is a very high $215,548 per capita. Wealth and income factors are also high. According to 2004 U.S. Department of Commerce statistics, the city's income of $50,692 per capi ta was 120% of the commonwealth's average and 153% of the nation's average.

Cambridge's financial performance and position remain strong and stable due, in part, to the city's fiscal management. Strong revenue variances in investment income and sewer user charges led to the city's seventh consecutive operating surplus. The city closed fiscal 2006 with a $12 million surplus, or 3.5% of the total operating budget. The unreserved general fund balance increased to $120 million in fiscal 2006 from $100 million in fiscal 2005; the fiscal 2006 balance was equal to a strong 34% (please see chart 1). Additional reserves, strong liquidity, and property tax levy capacity augment the city's strong financial position. The city's stabilization, health claims trust, and parking funds provide roughly $41.1 million at fiscal 2006 year-end of additional revenue flexibility. The city's stabilization fund increased to $15 million in fiscal 2007. City officials, however, expect to draw down that reserve over the next three years by roughly 2.8 million annually to maintain level debt service costs compared to the total budget. Cambridge's long-term planning and management approach has contributed to its stable and strong financial position. This management is considered good under Standard & Poor's Financial Management Assessment (FMA) methodology.An FMA score of good indicates Cambridge's financial practices exist in most areas but that not all practices might be formalized or that governance officials might not regularly monitor them.

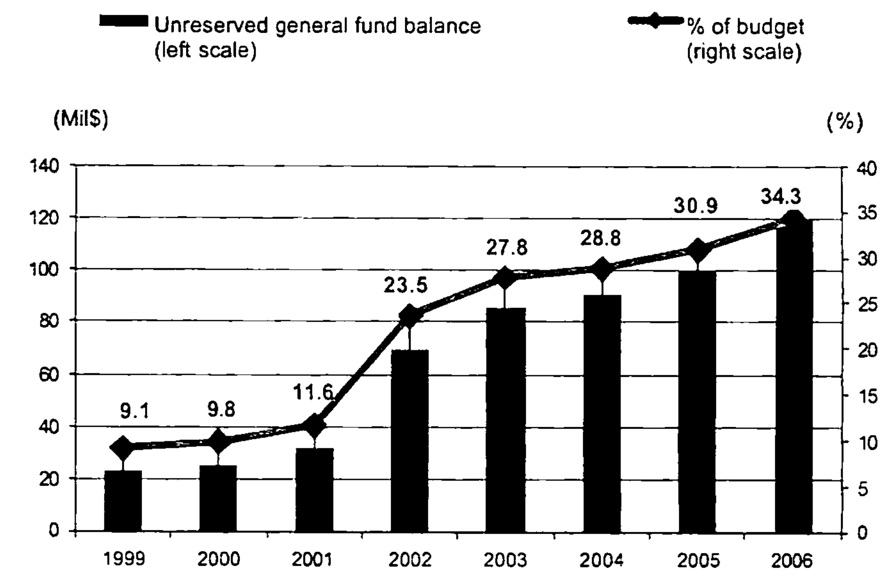
Despite Proposition 2 1/2 limitations, the city has maintained a large unused tax levy capacity over the past several years. After property tax base growth and property appreciation, representing about 24% of unused taxing capacity, Cambridge's unused levy capacity increased to 13% during fiscal 2006 to $73.7 million in fiscal 2007. The excess levy allows city officials to appropriate that amount, if needed, for operations or capital without the need for electorate-approved exemptions or overrides. The city's cash and investment position was equal to 164 days' operating expenditures in fiscal 2006.

Cambridge's debt profile is also favorable, net of self-supporting water and sewer debt and state school construction reimbursements. User fees and state reimbursements support about 50% of total indebtedness. Net debt is a low $1,681 per capita, or 0.7% of market value. Even factoring in the $108 million unfunded pension liability as debt, debt ratios remain a moderate $2,749 per capita and just 1.1% of market value. The city's carrying charge is also low with debt service expenditures historically less than 10% of total expenditures. Amortization is very rapid with 53% of principal outstanding being retired over five years and 82% being retired over 10 years. Officials have focused their long-term capital needs on the water and sewer systems. The five-year public improvement program totals $155.6 million of capital needs through 2011. Management has identified roughly $111 million of water and sewer needs, accounting for about 71% of the total plan. Officials intend to issue additional debt to fund about 36% of the plan.

Outlook

The stable outlook reflects the expectation that the city will continue to manage its financial position prudently, which it has significantly demonstrated by increasing reserves over the past seven years. The city's economic and property tax base development is expected to continue, allowing it to maintain structural balance between revenues and expenditures while maintaining its tax levy flexibility.

Historical Unreserved General Fund Balance Position



Economy: Appreciation, Growth Drive Tax Base Expansion

Cambridge's property tax base reached $22.2 billion in fiscal 2007, up by 1.5% from fiscal 2006 and 25.0% from fiscal 2003. Steady property appreciation and new growth drives property tax base expansion. New growth within the past year added roughly $767 million of taxable value to Cambridge's tax base. The tax base is moderately concentrated with the 10 leading taxpayers accounting for 18% of fiscal 2007 AV. MIT has been investing in land throughout Cambridge for both educational and real estate investment purposes, and it currently accounts for 10.9% of the total tax levy. MIT and Cambridge have formalized a payments-in-lieu-of-taxes agreement that addresses normalizing payments to the city over the next 40 years. City and Harvard officials completed a similar payments-in-lieu-of-taxes agreement in 2005. Both agreements include base payments and escalators: Harvard's payment increases by 3.0% annually and MIT's by 2.5% annually.

With just 6.26 square miles, this established city has historically had to rely on redevelopment for new growth; but it is currently redeveloping a 60-acre former railroad parcel that has excellent highway access. This 4.4-million-square-foot parcel of land, referred to as North Point, is across the Charles River from Boston's North Station. The 15- to 20-year buildout will essentially create a new neighborhood within the city. The development will include 2.2 million square feet of commercial and R&D space and 2,400-2,700 housing units. Developers broke ground on the first two residential buildings in November 2005. City officials are projecting average annual growth of 3.3% through 2011, which is lower than their past projections of additional growth.

Cambridge's local economy is strong and concentrated in high-tech, biotechnology, engineering, medicine, education, finance, and management consulting. The city remains a net importer of jobs; in 2005, there were 102 positions for every 100 city residents. Harvard and MIT are the city's two leading employers, accounting for 18% of the city's workforce. The city's leading employers are:

- Harvard (10,068 employees);
- MIT (7,864);
- Cambridge (2,819);
- Mount Auburn Hospital (1,813);
- Cambridge Health Alliance (1,567);
- Federal government (1,514), primarily the transportation research center; and
- Biogen (1,434).

Cambridge is home to a concentrated cluster of world-recognized biotechnology and pharmaceutical firms. The concentration of intellectual capital at Harvard and MIT and R&D think tank Whitehead Institute (500 employees) is attractive to this sector. Private biotechnology firms account for seven of the city's 25 leading employers:

- Biogen (1,434 employees),
- Millennium Pharmaceuticals Inc. (1,339),
- Genzyme (1,231),
- Novartis (960),

- Wyeth Genetics (780),
- Vertex Pharmaceuticals (539), and
- Shire Pharmaceuticals (475).

The newly created Brode Institute is under construction; upon completion, it will focus its research on math and bioscience. The Brode family, MIT, and Harvard are equally funding the $400 million project, which will complement the Whitehead think tank in furthering the retention of intellectual capital from area universities. A large presence of university students that are educated at Harvard (about 19,730) and MIT (10,320) exists in the city.

Finances Remain Strong

Following its seventh consecutive operating surplus in fiscal 2006, Cambridge's financial position remains strong. The unreserved general fund balance was $120 million, or 34% of expenditures, in fiscal 2006. Over the past three years, the city's unreserved balances have averaged 31% of expenditures, which is above the national average for similar-sized municipalities and above average compared with other 'AAA'-rated cities and towns. This also reflects the city's fiscal resilience during a period of state aid cutbacks, which occurred in fiscals 2003 and 2004. State aid accounted for more than 15% of the city's general fund revenues in fiscal 2002 but just 13% in fiscal 2006. The local property tax, which now accounts for 63% of total revenues, is the city's leading revenue source. Management bills property taxes semiannually; current-year collections are strong and are typically 98%-99% of the levy. The fiscal 2007 budget, which includes $10 $6 million in stabilization and free cash sources, totals $395.5 million, or a 3.9% increase over 2006 levels.

Financial Management Assessment: 'Good'

Cambridge's management practices are considered good under Standard & Poor's FMA methodology. An FMA score of good indicates Cambridge's financial practices exist in most areas but that not all practices might be formalized or that governance officials might not regularly monitor them.

Among the highlights of the city's management techniques are management's:

- Monthly budget surveillance that compares budgeted expenditures with five-year budgeted actuals;
- Formal five-year budget and financial plan that is based on conservative revenue and expenditure assumptions; and
- Five-year public investment improvement program, in which management identifies projects and funding sources and links them to the city's five-year financial plan.

The city does not have a formal operating reserve policy; it, however, maintains a target minimum unreserved general fund balance at 20% of expenditures, which the city has met since fiscal 2002. Likewise, Cambridge does not have a formal debt management policy. Management, however, structures its debt based on internal debt targets compared with budgeted levels, under 10% of total expenditures, and more rapid amortization of bonded principal.

Debt/Other Fixed Liabilities

Cambridge's five-year public improvement program totals $155.6 million of capital needs through 2011. City officials have identified roughly $110.9 million of water and sewer needs, accounting for about 71% of the total plan. They plan to use Massachusetts Water Resources Authority grants to fund a large portion of this amount. Officials also intend to issue additional debt to fund about 36% of the plan. The five-year plan also calls for management to use $12.25 million of general fund revenues to fund projects within the public improvement program. Since fiscal 1985, the city has formally funded a portion of its long-term capital plan with pay-as-you-go financing. Pay-as-you-go funding accounted for $2.83 million in fiscal 2006, and officials budgeted it at $2.24 million in the fiscal 2007 budget. The city's $108 million unfunded pension liability, dated Jan. 1, 2006, accounts for a nearly 85% funded ratio, well above the city's commonwealth peers and above average compared with its national peers. The city is on schedule to fund its pension system fully by 2015. The city is currently estimating its other postemployment benefits liability; officials expect this valuation to be complete by spring 2007 with full implementation of the new GASB 45 reporting in fiscal 2008. Cambridge's other postemployment benefits amounted to $14.1 million in fiscal 2006.

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